1. A broker-dealer located in State A, in business for 10 years, goes out of business in September. Some of the principals at the firm start a new broker-dealer and pay the appropriate registration fees to State A in October of that year. The broker-dealer’s registration will expire in:
   a. September of the following year
   b. October of the following year
   c. December of the same year
   d. December of the following year

2. A broker-dealer located in State A, in business for three years, goes out of business in July. Some of the principals at the firm start a new broker-dealer in August of that year. Which of the following statements is TRUE concerning the broker-dealer’s registration fee?
   a. A fee is not required until the next year.
   b. The appropriate registration fee must be paid.
   c. A prorated fee must be paid.
   d. A fee is not required since the broker-dealer and not the agent is seeking registration.

3. Giant Asset Management has $67.5 million in assets under management. Under the Uniform Securities Act (USA), if Giant transacts business with clients in State A, it is:
   a. Required to pay an initial and renewal filing fee to State A
   b. Not required to pay any filing fees in State A
   c. Required to pay filing fees in State A only if it has an office in State A
   d. Required only to pay an initial filing fee in State A

4. Global Investments is a broker-dealer based in State A. It is currently registered as a broker-dealer in States B, C, and D. The firm is looking to expand its business to State E. Under the Uniform Securities Act, in which of the following situations would Global Investments NOT be required to register as a broker-dealer in State E?
   I. The firm transacts business only with other broker-dealers.
   II. The firm’s sole business in State E is with four or fewer noninstitutional customers within a twelve-month period.
   III. The firm’s sole business in State E is limited to transactions in federal covered securities.
   IV. The firm transacts business only with institutional investors.

   a. I and III only
   b. I and IV only
   c. II and III only
   d. II and IV only

5. When an application for withdrawal by a person becomes effective, the registrant is required to maintain a minimum bond for:
   a. An indefinite period
   b. One year from when the registration withdrawal becomes effective
   c. Three years from when the registration withdrawal becomes effective
   d. Five years from when the registration withdrawal becomes effective
6. A person located in State A has been a client for four years of a firm that is headquartered in State B. The firm is registered in both States A and B. Based on the advice of the firm, the client buys securities that become worthless. Two years later, the client files a civil suit to recover the purchase price of the securities. If the agent who sold the securities to the client has passed away, the client is:
   a. Not permitted to file a civil suit since the agent has passed away
   b. Only permitted to file a civil suit in State B since that is where the firm is headquartered
   c. Permitted to file the civil suit but will not be able to recover damages since the statute of limitations has passed
   d. Permitted to file the civil suit and may be able to recover damages

7. Under the USA, which of the following entities would be considered an investment adviser?
   a. A bank
   b. A trust company
   c. A savings institution
   d. An insurance company

8. Under the Investment Advisers Act of 1940, which of the following entities providing advisory services would be considered an investment adviser?
   a. A bank
   b. A bank holding company, which is an investment company
   c. An accounting company
   d. A publishing company

9. Under SEC Release 1092, who would NOT be exempt from the definition of investment adviser?
   a. A marketing firm whose investment advice is solely incidental to its profession
   b. An accounting firm whose investment advice is solely incidental to its profession
   c. A law firm whose investment advice is solely incidental to its profession
   d. A professor whose investment advice is solely incidental to his profession

10. Under the Investment Advisers Act, which of the following forms must be filed if an investment adviser has custody of customer funds and securities?
   a. ADV-H
   b. ADV-E
   c. ADV-NR
   d. ADV-W

11. If an adviser has custody of customer funds and securities, Form ADV-E must be filed by:
   a. The adviser within 30 days after the completion of an audit
   b. The adviser within 60 days after the completion of an audit
   c. An independent accountant within 30 days after the completion of an audit
   d. An independent accountant within 60 days after the completion of an audit

12. XYZ broker-dealer is located in State A, where it maintains its corporate headquarters. Under the Uniform Securities Act, XYZ would meet the definition of a broker-dealer in State B if it:
   I. Has an office in State B and only sells securities to an investment companies located in State B
   II. Has an office in State B and conducts business only with other broker-dealers that do not have an office in State B
   III. Has no office in State B and only sells securities to high net worth clients that are residents of State B
   IV. Has no office in State B and only conducts business with other broker-dealers that have an office in State B
   a. I and II only
   b. II only
   c. I, II, and III only
   d. II, III, and IV only
13. Kevin Mystic is an agent of CMP Broker-Dealers. Kevin is currently registered in five states. CMP is registered in ten states. Kevin only transacts business with institutional clients. Due to recent mergers, some of Kevin’s clients will be relocating to North Carolina and CMP now wants to open a new office there. Kevin will not be moving from his current office in Missouri, a state in which both Kevin and CMP are registered. Under the USA:
   a. Both Kevin and CMP need to be registered in North Carolina
   b. CMP needs to be registered in North Carolina, but Kevin does not
   c. Neither Kevin nor CMP need to be registered in North Carolina
   d. Only Kevin needs to be registered in North Carolina

14. In reference to storing customer books and records, an adviser is permitted to store records on:
   a. Microfilm or microfiche only
   b. Disks, provided the information cannot be altered
   c. The original format only
   d. Disks, provided they are password-protected

15. An adviser is permitted to store records on:
   a. A hard drive that can be easily accessed
   b. Electronic format only
   c. Disk, provided it is password-protected
   d. Microfilm or microfiche

16. Which of the following records must be kept by an investment adviser?
   I. A copy of each written account statement sent to a client
   II. A copy of the investment adviser’s code of ethics
   III. A copy of each prospectus sent to a client
   IV. A memorandum of each order to purchase or sell a security
   a. I and III only
   b. I and IV only
   c. I, II, and IV only
   d. I, II, III, and IV

17. Which of the following records must be kept by an investment adviser?
   I. A copy of each investment letter distributed to less than ten persons
   II. A record of any violation of the investment adviser’s code of ethics
   III. All written agreements entered into by the investment adviser and clients
   IV. Originals of all written communication sent by the adviser relating to recommendations
   a. I and III only
   b. III and IV only
   c. I, II, and IV only
   d. II, III, and IV only

18. Kevin Cates is an agent of the broker-dealer Big Chill. Kevin is currently registered in three states and Big Chill is registered in twenty states. Kevin only transacts business with institutional clients. Due to recent mergers some of Kevin’s clients will be relocating out of North Carolina and Big Chill will close its office in that State. Under the USA, which of the following statements is TRUE?
   a. Both Kevin and Big Chill will need to be registered in North Carolina.
   b. Big Chill needs to be registered in North Carolina, but Kevin does not.
   c. Neither Kevin nor Big Chill needs to be registered in North Carolina.
   d. Only Kevin needs to be registered in North Carolina.

19. Under the National Securities Markets Improvement Act (NSMIA), which two of the following statements are TRUE regarding investment advisers with $35 million of assets under management?
   I. They must register in any states in which they will conduct business.
   II. They are exempt from state registration.
   III. They must register with the SEC.
   IV. They must register with the SEC only if their clients are all retail investors.
   a. I and III
   b. I and IV
   c. II and III
   d. II and IV
20. All of the following records must be retained by an investment adviser and broker-dealers EXCEPT:
   a. Clients’ tax returns used to obtain their annual income
   b. Ledgers used by the firm to record assets and liabilities
   c. E-mail between clients and the firms covering investment recommendations
   d. Trade tickets detailing the type and amount of securities purchased by a client

21. Harvey Debeers is the owner of a private company that manufactures diamond engagement rings and markets them to companies in the U.S. His firm needs to raise capital so it can expand its internet operations. Harvey has decided to avoid hiring an investment bank to raise capital and wants to hire salespeople to contact investors in State A to sell securities of his company. Under the USA, which of the following statements is TRUE?
   a. Avoid meeting the definition of an agent if he sells the securities only to institutional investors
   b. Meet the definition of an agent if he sells the securities to any retail investors
   c. Meet the definition of an agent since he is selling the bank’s securities to individuals who do not have an account with the bank
   d. Not meet the definition of an agent under any circumstances

22. Zack Woods is employed at Indiana Trust Company, which is a federally chartered bank. His boss, the CFO of the company, asks him to help sell the bank’s securities to some potential institutional clients and a few retail investors who do not have accounts with the bank. Under the USA, Zack would:
   a. Avoid meeting the definition of an agent if he sells the securities only to institutional investors
   b. Meet the definition of an agent if he sells the securities to any retail investors
   c. Meet the definition of an agent since he is selling the bank’s securities to individuals who do not have an account with the bank
   d. Not meet the definition of an agent under any circumstances

23. Which of the following persons would meet the definition of an investment adviser under the Investment Advisers Act?
   a. A broker-dealer that provides the public with asset allocation tools
   b. An accountant who holds herself out to the public as a provider of tax planning advisory services
   c. A bank that holds itself out to the public as a provider of trust services
   d. A lawyer who holds himself out to the public as a provider of financial planning advisory services
24. Robin works part-time for Jon and Jamie Financial Planning, where she develops financial plans for clients. She asks clients a series of questions about their current finances and investment objectives, which she uses to create customized financial plans. These plans often include recommendations that they purchase insurance or variable annuities, opening IRAs or other types of retirement accounts. Robin charges a fee for the plans, but she does not earn commissions for selling clients variable annuities and insurance to implement their plans. Is Robin an investment adviser?
   a. No, she is an investment adviser representative
   b. No, since she does not provide investment advice on a full-time basis
   c. No, since she does not receive compensation for implementing her financial planning recommendations
   d. Yes, since she charges a fee for financial planning services

25. Morg Financial Planning Services is a small investment adviser whose main office is located in Kennebunkport, Maine. It has two retail clients in Maine and six retail clients that live in Vermont. It also has 10 clients located in New Hampshire (four individuals and six institutions). Its most important client is the Haley Trust Company, which is located in Hyannis Port, Massachusetts. Morg Financial just opened a small satellite office there in order to better service this client. Morg must register as an investment adviser in which of the following states?
   I. Maine
   II. Massachusetts
   III. New Hampshire
   IV. Vermont
   a. I and II only
   b. I and III only
   c. III and IV only
   d. I, II, and IV only

26. Quandry Financial Corporation is an investment advisory firm with three partners and ten associates. All of the partners have earned a CFP (Certified Financial Planner) designation. The associates are attending CFP classes, but have not yet earned the designation. Quandry has published an advertisement that states "All of our partners have completed the CFP certification program." Which of the following statements is TRUE?
   a. This is unethical since investment advisers may not advertise their qualifications.
   b. This is unethical since it implies that all of the firm’s employees are CFPs, which is misleading.
   c. This is acceptable since the statement is literally true.
   d. This is acceptable since the content of adviser advertisements is not regulated.

27. A partner of an investment adviser may put all of the following information on her business card EXCEPT the designation:
   a. CPA
   b. IAR
   c. CFP
   d. MBA

28. Bruce Clemens recently became employed as the chief investment strategist at E Street Financial, an investment adviser registered with the SEC. Bruce learns that he needs to be registered in New Jersey as an investment adviser representative. He will be ordering new business cards and wants to include IAR on his new cards along with his other designations. Which of the following statements is TRUE?
   a. He may not mention this since this is not an approved designation.
   b. He may not mention this since his firm is registered with the SEC and not the state in which he will be registered.
   c. He may mention it since it reflects his recent qualification as a representative of a registered investment adviser.
   d. He may mention it since he is using the abbreviation IAR and not IA.
29. Which of the following activities is/are unethical rather than illegal?
   
   I. An agent of a broker-dealer describes his qualifications to clients as an expert in senior citizen retirement planning and, although no such designation exists, the agent has a certificate in his office from a fictitious institution conferring the designation.
   
   II. An agent of an issuer engages in common law deceit regarding the sale of securities to the public.
   
   III. An IAR of a SEC registered investment adviser fails to notify his superior of a letter received from a client that alleges fraudulent activities on the part of the IAR.
   
   IV. An IAR of a SEC registered investment adviser knowingly provides material public information to her largest client, and the client acts on the information.

   a. I and II only
   b. I and III only
   c. III only
   d. I, II, III, and IV

30. Maxman Investment Advisers has been in business for 17 years. The firm has not placed advertisements in the past to attract new clients but would like now to expand its business. The firm specializes in asset management and most of its clients are executives from video gaming companies. Maxman would like to include in the advertising quotes from some of the executives on how their returns have beaten the market over the last few years. This would be acceptable:

   a. If the executives signed a written statement with the wording of the advertisement in the agreement
   b. If the advertisement was filed with both the SEC and the state administrator(s) where the publication is being circulated
   c. If the investment adviser disclosed whether the executives' returns included any fees that the firm charged and stated that past performance does not guarantee future results
   d. Under no circumstances

31. Leviathan Advisers is preparing an advertisement to be distributed widely within California. According to the Uniform Securities Act, what information may be used in the ad?

   a. A statement offering free research to clients that have signed contracts with the firm
   b. A graph showing the firm's 20 best picks over the last twelve months
   c. A list of the best recommendations made by the adviser within the last year with detailed information regarding the specifics of each recommendation
   d. A testimonial from some of the firm's largest clients

32. All of the following information would be permitted in an advertisement by an investment adviser EXCEPT a list of:

   a. Public and private colleges that are asset management clients of the adviser
   b. Managing directors of the firm along with their professional designations
   c. The adviser's top-ten corporate pension fund clients along with the reasons they have accounts managed by the adviser
   d. Private foundations that allocate funds to the adviser's managed account program
33. Marie has recently signed a contract to have Xtra Capital Management, an investment advisory firm, manage her portfolio. Initially, her account was set up to be managed on a nondiscretionary basis. Her IAR, Zach, was to provide her with recommendations, which she could accept or reject. However, Marie is now scheduled for a one-month business trip and it will be difficult to contact her during that time. Marie phones Zach and authorizes him to handle her account on a discretionary basis. Zach tells Marie that he will do so, but she must follow up by sending the firm written discretionary authorization. Which of the following statements is TRUE?

a. Zach did not need to ask for written authorization since discretion may be granted in investment advisory accounts based solely on verbal authorization.

b. Zach must receive Marie’s written authorization before exercising discretionary authority in her account.

c. Zach must receive Marie’s written authorization for each order entered when he is exercising discretionary authority in her account.

d. Zach may exercise discretionary authority in Marie’s account based on her verbal authorization as long as she confirms it in writing when she returns from her trip.

34. An investment adviser would like to send an e-mail to potential clients and include a report which contains a listing of all of its recommendations. Is this an unethical business practice?

a. It is, since an adviser is not permitted to use electronic communication to list past recommendations.

b. It is, since an adviser is only permitted to send this type of communication to existing clients.

c. It is not, provided the report has been filed with either the SEC or the appropriate state prior to the adviser sending the e-mail.

d. It is not, provided the first page of the report bears a legend stating that future recommendations will not always be as profitable as those that were made in the past.

35. An agent receives an unsolicited letter and a brochure from the general partner of an oil and gas drilling private placement program. The letter indicates that there are substantial tax benefits to be gained and that the payout to the representative is substantial. The agent is enthusiastic about this investment and sends copies of the brochure to a handful of existing clients. Based on these actions, you would be LEAST concerned with:

a. The general partner’s track record

b. Whether the oil and gas interest constitutes a security

c. The information contained in the brochure

d. A potential violation of Regulation D

36. Betty Binghamton is an agent working for Integrated Brokerage. She sees an opportunity for her clients to earn higher-than-normal returns by selling participations in loans needed by Reynolds & Co., a venture capital firm. If she participates and receives a fee, which of the following statements are TRUE?

I. She must give written notice to Integrated describing the transaction.

II. This situation falls outside the jurisdiction of securities regulators.

III. Integrated must provide written approval indicating that she may earn a fee.

IV. The broker-dealer is not responsible for supervising Ms. Binghamton for these transactions.

a. I and III only

b. I and IV only

c. I, II, and III only

d. I, II, III, and IV
37. Carrie David has been a client of Closter Investment Advisers for four years. She is happy with the performance of her account and wants to renew her contract with the firm. Which of the following provisions is NOT required in the contract?
   a. Notification if a managing partner, who does not manage any of Carrie’s assets, retires from the firm
   b. Notification if a managing partner, who does not manage any of Carrie’s assets, leaves to start a new advisory firm
   c. Notification if the investment adviser representative, who manages Carrie’s assets, leaves to start a new advisory firm
   d. Notification if the investment adviser representative, who manages Carrie’s assets, does not leave the firm, but her supervisor, who is a partner, leaves the firm

38. Which of the following circumstances is NOT considered an assignment of the client’s contract?
   a. A majority of the managing partners leaves to start a new advisory firm but the IAR who manages the assets of the client stays with the firm.
   b. A managing partner who owns 53% of the firm dies.
   c. The advisory firm is purchased by another investment adviser that is affiliated with a federally chartered bank.
   d. The investment adviser representative who manages the client’s assets and is a partner of the adviser leaves the firm.

39. Which of the following activities is considered a prohibited business practice by a broker-dealer?
   a. Stating that the price it is offering to sell a Nasdaq security to a client is the current market price when the broker-dealer is not a Nasdaq market maker in that security
   b. Stating that the price it is offering to sell a security to a client as an agent is the current market price if the security is listed on the New York Stock Exchange
   c. Stating the price it is offering to sell a security to a client is the current market price if the broker-dealer is part of an underwriting syndicate in that security
   d. Stating that the broker-dealer is one of the top market makers in a security that is traded on the bulletin board

40. Under NASAA’s Statement of Policy on Unethical Business Practices, an adviser may NOT release client information to:
   a. The Securities and Exchange Commission
   b. The Financial Planning Association
   c. The Internal Revenue Service
   d. An affiliated broker-dealer, which has received the client’s approval

41. KiddieLand is a company that operates several theme parks across the United States. Pilar would like to purchase 18 shares of KiddieLand stock for her newborn niece. Her broker-dealer charges a specified minimum ticket amount for small orders. Which of the following statements is TRUE?
   a. Common stock is a suitable gift for children only if the company pays a dividend.
   b. The agent should disclose that the commissions charged for this transaction could be unusually large as a percentage of the market price.
   c. Pilar will need to obtain the custodian’s permission to purchase the stock.
   d. The agent will need to have Pilar’s written approval since the number of shares is less than 100.
42. Elaine has placed an order to buy 1,000 shares of a gold mining company in an emerging market. Elaine will pay the normal commission charged by the broker-dealer for the purchase of 1,000 shares of stock, but she will also be charged a service fee equal to twice the amount of the commission. Which of the following statements is TRUE?
   a. The broker-dealer has committed an unethical business practice.
   b. The broker-dealer must lower its normal commission to offset the service fee.
   c. The broker-dealer must notify the client in writing prior to the trade of the amount of the service fee.
   d. The broker-dealer must receive the client’s permission prior to the trade in order to charge the client a service fee.

43. According to NASAA’s Statement of Policy on Unethical Business Practices, which two of the following statements are TRUE concerning information to be included in investment advisory contract?
   I. The fee for managing equity securities may not be higher than for fixed-income securities.
   II. An assignment of the contract can be made only by the investment adviser with the consent of the client.
   III. There is disclosure explaining that no prepaid fees will be returned if the contract is terminated.
   IV. There is disclosure as to whether the contract grants discretionary power to the adviser.
   a. I and II
   b. I and III
   c. II and III
   d. II and IV

44. According to the Uniform Securities Act, which of the following investment advisory practices is prohibited?
   a. A client’s portfolio increases in value from $100,000 to $150,000 over a one-year period, so the adviser charges the client a fee based on the total value of the account.
   b. An investment advisory firm appoints three new portfolio managers but does not disclose this to clients of the firm.
   c. When an investment advisory firm is purchased by a large broker-dealer, all client contracts are automatically amended to reflect the broker-dealer ownership.
   d. A client terminates an advisory relationship with an investment adviser halfway through the contract and the advisory firm refunds 50% of all prepaid fees, as called for in the contract.

45. Mirage Adviser, a registered investment adviser, receives referrals from Ted, a retired businessman. Mirage gives Ted a fee for every client he refers who opens an account with Mirage. Which of the following statements is TRUE concerning this relationship?
   a. This relationship is permitted only if Ted registers as an investment adviser representative.
   b. Ted must disclose to the client the amount of compensation he will be receiving.
   c. Ted only needs to disclose that he will be receiving compensation, not the amount he will be paid.
   d. The adviser is not permitted to charge a higher fee due to this relationship.
46. A broker-dealer has an excellent research department with a highly rated team of analysts. An investment adviser manages several mutual funds as well as a hedge fund. The investment adviser wants to enter into an agreement with the broker-dealer to execute some of its transactions even though the broker-dealer charges higher commissions than some other brokerage firms. In return, the investment adviser would receive the broker-dealer's research reports and access to its analysts. Which of the following statements is TRUE?
   a. This practice is permitted provided the adviser agrees to lower the fee it charges its clients.
   b. This would be considered an unethical business practice.
   c. This type of arrangement is permitted only if the adviser receives the client’s prior written consent.
   d. This is an acceptable practice known as a soft-dollar arrangement.

47. Which of the following choices would not be permitted under a soft-dollar arrangement between an investment adviser and a broker-dealer?
   a. Accounting fees
   b. Portfolio analysis software
   c. Discussions with research analysts
   d. A seminar where corporate executives are in attendance

48. A client purchases 1,500 shares of Bergman’s Basketballs, an IPO that was underwritten by broker-dealer X. If the salesperson who sold the shares to the client is employed by broker-dealer Z, a member of the selling group, which of the following statements is TRUE?
   a. The client does not need to receive a prospectus since the shares were purchased from a member of the selling group.
   b. The client should receive the prospectus from broker-dealer X.
   c. The client should receive the prospectus from broker-dealer Z.
   d. The client should receive the prospectus from the issuer.

49. An issuer has filed a registration statement and its securities are in the process of being sold to the public. The issuer subsequently files additional documentation with the appropriate regulators. An agent of a broker-dealer that will be soliciting the issue to the public is required to provide customers with a:
   a. Preliminary prospectus
   b. Preliminary prospectus and the additional documentation
   c. Preliminary prospectus, the additional documentation, and the underwriting spread
   d. Copy of the registration statement and the additional documentation

50. An agent located in State W is employed by a broker-dealer that is owned by a bank. The bank is headquartered in State I. If the agent sells securities issued by the bank to clients in State I, which of the following statements is TRUE?
   a. The agent does not need to disclose the affiliation since the clients are located in the state where the bank is headquartered.
   b. The agent does not need to disclose the affiliation since the bank issues exempt securities.
   c. The agent would need to disclose the affiliation only if the clients have nondiscretionary accounts.
   d. The agent would need to disclose the affiliation to the customer under any circumstances.

51. The Simon Morris Insurance Company is a large sponsor of variable annuities and is located in State I. The company also owns a broker-dealer with offices in States W and I, and is registered in States X and Y. An agent of the broker-dealer selling the company’s variable annuity products would be required to take which of the following actions?
   a. Disclose the relationship to clients in States W, I, X, and Y
   b. Disclose the relationship to clients of States W and I only
   c. Disclose the relationship to clients of State I only
   d. Refund any fees charged by the insurance company to clients of the broker-dealer
52. Broker-dealer A is a publicly traded company listed on the New York Stock Exchange. Which of the following statements is TRUE regarding an agent of broker-dealer A that wants to sell securities of his company to a client?
   a. This would be considered an unethical business practice.
   b. This is acceptable only if the agent discloses the relationship in writing prior to the transaction.
   c. This is acceptable if the agent discloses the relationship verbally prior to the transaction since no written disclosure is necessary.
   d. This is acceptable if the agent discloses the relationship verbally prior to the transaction and in writing before the settlement date.

53. Broker-dealer W is participating as an underwriter in the distribution of municipal securities issued by the city of Savannah, Georgia. If the offering is oversubscribed, which of the following business practices would be considered unethical by broker-dealer W?
   a. Selling the securities to nonresidents of Georgia
   b. Selling the securities to retail investors that were residents of Georgia
   c. Selling part of their allocation to employees of the broker-dealer
   d. Selling part of their allocation to institutional investors

54. Broker-dealer A is the managing underwriter of Cliffriders Bicycles, an IPO that will be listed on Nasdaq. Broker-dealer B is a member of the syndicate, and broker-dealer C is a member of the selling group. Which of the following firms would be permitted to allocate its/their allotment of shares exclusively to hedge funds?
   a. Broker-dealer A only
   b. Broker-dealers A and B only
   c. Broker-dealers A, B, and C
   d. None of the broker-dealers

55. According to the Investment Advisers Act of 1940, all of the following statements are TRUE EXCEPT:
   a. An adviser is required to have written procedures in place to prevent the misuse of material nonpublic information
   b. An adviser is required to have written procedures that prohibit its employees from providing tax advice
   c. An adviser is required to have written procedures that address trading practices by its portfolio managers
   d. An adviser is required to have written procedures that prevent employees from disclosing its clients' portfolios to the public

56. According to the Investment Advisers Act of 1940, all of the following actions would be a violation EXCEPT:
   a. A portfolio manager buys XAM stock for a fund and later that day buys shares of the same company
   b. A portfolio manager buys XAM stock for his personal account and later that day buys shares of the same company for a fund
   c. A portfolio manager buys XAM stock for a fund after learning that another fund manager will be purchasing shares of the same company
   d. A portfolio manager buys XAM stock for a fund after learning that an affiliated broker-dealer will be purchasing shares of the same company

57. According to Investment Advisers Act of 1940, which of following statements is FALSE?
   a. Advisers that are not broker-dealers are required to have policies prohibiting insider trading.
   b. Advisers that are also broker-dealers are not required to have policies prohibiting insider trading.
   c. Advisers that are also broker-dealers are required to have policies prohibiting insider trading.
   d. Advisers that manage exempt securities are required to have policies prohibiting insider trading.
58. A client of an investment adviser is willing to speculate in order to achieve higher-than-average returns on his portfolio. The adviser wants to enter into transactions that are not permitted under the Investment Advisers Act of 1940. This is acceptable:
   a. Provided the transactions are approved in writing by the client prior to being entered
   b. Provided the transactions are disclosed to the client in writing prior to the settlement date
   c. Provided the securities and/or transactions are exempt from registration
   d. Under no circumstances

59. In a sales presentation to a client regarding mutual funds, an agent states that if all dividends and capital gains distributions are reinvested, the client will be required to pay taxes on the distributions. Which of the following assertions is CORRECT?
   a. This is a legitimate statement.
   b. This statement constitutes an unethical business practice.
   c. This statement would only be legitimate if the agent was also an accountant.
   d. This statement may be used if the agent discloses the amount of tax to the client prior to the sale.

60. Darlene is an investment adviser representative for Javits Asset Management. One of her clients has recently sold his primary residence and would like to invest half of the proceeds in a risk-free investment. The client states, “I may need those funds in four or five years and I heard that Treasury securities have no risk.” Darlene’s response to the client should be:
   a. You are correct since the securities are backed by the U.S. government
   b. You are correct since the securities can be sold in the secondary market at a price that would be very close to the purchase price
   c. This may not be true since the value of the securities may be less than the purchase value after other factors are considered
   d. This may not be true since the value of the securities will decrease at certain times prior to the final maturity date

61. A client with a net worth of $2,000,000 has $300,000 in funds managed by an investment adviser. The investment adviser normally charges 1% of the assets under management but will waive the fee if the performance of a client’s account does not attain a certain level of capital appreciation. According to the Investment Advisers Act, which of the following statements is TRUE?
   a. Only a control person of the investment adviser may approve the arrangement.
   b. Only the SEC may approve the arrangement.
   c. This provision is allowed if the client signs the contract.
   d. This practice is prohibited.

62. Which two of the following clients may enter into an advisory contract that includes a performance-based fee?
   I. A joint account with a net worth of $1,000,000
   II. A partner of the investment adviser with $400,000 under management
   III. An IRA account with $1,000,000 under management
   IV. An individual account with $650,000 under management
   a. I and III
   b. I and IV
   c. II and III
   d. II and IV

63. Hughes Asset Management would like to add a new method to calculate the fees it will charge to certain clients. The new fee would be performance-based and would be calculated over a period of time. Which of the following statements is TRUE?
   a. This would be allowed if the SEC approved the method of calculating the fee prior to any contracts being signed.
   b. This type of fee arrangement is not permitted and would be a violation.
   c. This type of fee arrangement is not permitted for registered investment companies.
   d. This type of fee arrangement is permitted for qualified clients.
64. Fertel Advisers charges clients a fee based on the dollar value of assets under management. The firm has seen the dollar value of assets under management increase over the last 12 months due to its successful asset allocation and stock picking expertise. One of the clients, whose account has increased in value during this period, contacts the firm to complain that the fee he was charged increased and he did not sign a contract that included a performance-based fee. Which of the following statements is TRUE?

a. The adviser is permitted to charge a higher fee and no violation has occurred.
b. The adviser has committed a violation by charging the client a higher fee.
c. Although no violation has occurred, the adviser engaged in an unethical business practice.
d. The client would be permitted to cancel the contract since the adviser did not disclose the correct method it used to calculate its fees.

65. Under the Investment Advisers Act of 1940, which of the following situations would be a violation of soft-dollar practices?

a. An investment adviser uses a broker-dealer to execute transactions that provides the adviser with third-party research.
b. An investment adviser uses a broker-dealer to execute transactions that provides the adviser with market data services.
c. An investment adviser uses a broker-dealer to execute transactions that provides the adviser with trading software used to route orders to a market center.
d. An investment adviser uses a broker-dealer to execute transactions that provides the adviser with assistance concerning its compliance responsibilities.

66. Which of the following scenarios would be permitted in a soft-dollar arrangement between an adviser and a broker-dealer?

a. A broker-dealer pays for the cost of a coach flight for a portfolio manager to attend a conference.
b. A broker-dealer pays for the cost of a conference concerning the future of the computer software industry.
c. A broker-dealer pays for the cost of computer terminals used to deliver market data services.
d. A broker-dealer pays a percentage of the salaries of the adviser’s internal research staff.

67. Which of the following nonissuer transactions would be exempt from registration under the Uniform Securities Act?

a. The issuer is operating an Internet business and has not had a profit since going public.
b. The issuer is operating as a blank-check company that is investing in profitable companies.
c. The issuer is operating as a blind-pool company that is investing in companies that have been in business for at least two years.
d. The issuer is operating a company whose primary plan of business is to engage in mergers and acquisitions.

68. A broker-dealer registered in California sells a security listed on a national securities exchange. The transaction takes place in the secondary market and both clients are residents of California. Under the USA, which of the following statements is TRUE?

a. This is an example of an exempt security.
b. This is an example of an exempt transaction.
c. The issuer would be required to register the security in California.
d. The broker-dealer would be required to register the security in California.
69. Which of the following transactions would require a broker-dealer to register in Pennsylvania?

I. The broker-dealer has an office in Pennsylvania and executes nonissuer transactions of securities listed on a national securities exchange.

II. The broker-dealer has no office in Pennsylvania and executes nonissuer transactions of securities listed on a national securities exchange with clients that are residents of Pennsylvania.

III. The broker-dealer has an office in Pennsylvania and executes transactions of municipal securities with clients that are not residents of Pennsylvania.

IV. The broker-dealer has no office in Pennsylvania and executes transactions of municipal securities with clients that are residents of Pennsylvania.

a. I and II only
b. I and III only
c. III and IV only
d. I, II, III, and IV

70. Under the USA, which of the following transactions would NOT be considered exempt?

a. An offer to an investment company
b. A transaction by an executor of an estate
c. An unsolicited issuer transaction effected through a registered broker-dealer
d. A transaction by a trustee that is involved in a bankruptcy proceeding

71. According to the Uniform Securities Act, all the following transactions would be considered exempt EXCEPT:

a. A transaction that is executed by a bona fide pledge that is not intended to evade the USA
b. A nonissuer transaction of a security that is regularly quoted on the OTC Bulletin Board
c. A nonissuer transaction of a security that is quoted on Nasdaq
d. A transaction executed by a guardian appointed by a state court